

Message Text

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ACTION AF-08

INFO OCT-01 ISO-00 EB-08 /017 W

-----011641Z 011903 /40

P R 011454Z APR 77

FM AMEMBASSY LAGOS

TO SECSTATE WASHDC PRIORITY 257

INFO USDOC WASHDC

UNCLAS SECTION 01 OF 02 LAGOS 03679

USDOC FOR OIM/SAD

E. O. 11652: NA

TAGS: BGEN, EGEN, NI

SUBJ: 1977-78 BUDGET SPEECH

1. SUMMARY: HEAD OF STATE OBASANJO BROADCAST ANNUAL FMG BUDGET MESSAGE EVENING MARCH 31. HIGHLIGHTS OF SPEECH INCLUDED CLAIM THAT MUCH PROGRESS MADE IN REACHING GOALS OF FY 1976/77 BUDGET PROGRAM, PARTICULARLY IN REDUCING INFLATION AND STIMULATING ECONOMIC GROWTH. ON NEGATIVE SIDE OBASANJO ADMITTED NIGERIA INCURRED A NAIRA 242.6 MILLION BALANCE OF PAYMENTS DEFICIT IN CY 1976 AND ACKNOWLEDGED THAT EXECUTION OF 5-YEAR DEVELOPMENT PLAN HAS BEEN SLOW. POINTING TO SHORTFALL BETWEEN GOVERNMENT GROSS REVENUES AND LOOMING EXPENDITURES TO IMPLEMENT CAPITAL DEVELOPMENT, OBASANJO POINTED OUT NEED TO BORROW AT HOME AND ABROAD. WAGE FREEZE WILL CONTINUE WITH SOME RELIEF FOR LOW INCOME GROUP. NO NEW FOREIGN INVESTMENT INCENTIVES OR RESTRICTIONS ANNOUNCED, BUT OIL EXPLORATION AND DEVELOPMENT INCENTIVES PROMISED IN NEAR FUTURE. NO FOREIGN POLICY INITIATIVES OR COMMENTARY MADE. ECONOMIC GROWTH, ESPECIALLY IN AGRICULTURE, AND CONTROL OF INFLATION REMAIN MAIN FMG ECONOMIC GOALS. MEASURES ANNOUNCED BY OBASANJO TO ACHIEVE THESE GOALS INCLUDE: 1) INCREASING LOAN QUOTAS BY BANKS TO RESIDENTIAL CONSTRUCTION AND

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AGRICULTURAL SECTORS; 2) BOND ISSUING BY STATE GOVERNMENTS; 3) INCREASING IMPORT RESTRICTIONS. PRESS STATEMENT TODAY BY FEDERAL COMMISSIONER FOR FINANCE EXPECTED TO FILL IN DETAILS. END SUMMARY.

2. ECONOMY. OBASANJO REPORTED THAT THE "NATIONAL ECONOMY" GREW IN REAL TERMS BY 10 PERCENT IN FY 1976 - 77

COMPARED TO A GROWTH RATE OF ONLY 2.8 PERCENT IN FY 1975/
76. MOST OF INCREASE ATTRIBUTED TO RECOVERY OF OIL
SECTOR (14.8 PERCENT GROWTH) WHICH REBOUNDED FROM ITS
20.7 PERCENT DECLINE IN FY 1975/76.

3. INFLATION. OBASANJO CLAIMED THAT INFLATION RATE

DECREASED FROM 35 PERCENT IN FY 1975/76 TO 20 PERCENT IN
1976/77 AND CREDITS FMG POLICY, INCLUDING IMPORT RESTRIC-
TIONS AND SLOWDOWN IN THE GROWTH OF MONEY SUPPLY, WITH
THIS SUCCESS. HE PLEDGED TO CONTINUE "BATTLE AGAINST
INFLATION."

4. BALANCE OF PAYMENTS AND EXTERNAL RESERVES. AFTER

THREE YEARS OF SURPLUSES, NIGERIA INCURRED A 1976
BALANCE OF PAYMENTS DEFICIT OF NAIRA 242.6 MILLION
DESPITE A TRADE ACCOUNTS SURPLUS OF NAIRA 1600 MILLION.
A NAIRA 1819.9 MILLION INVISIBLES DEFICIT AND A NAIRA
22.7 MILLION CAPITAL ACCOUNT DEFICIT ACCOUNTED FOR THE
NAIRA 242.6 MILLION BALANCE OF PAYMENTS DEFICIT. AS
EXPECTED, NIGERIA'S EXTERNAL RESERVE HOLDINGS DECLINED
FROM NAIRA 3696.42 MILLION (DECEMBER 1975) TO NAIRA 3453
MILLION (DECEMBER 1976).

5. FISCAL 1977/78 BUDGET AND FOREIGN BORROWING

TOTAL FEDERAL GOVERNMENT CURRENT AND CAPITAL EXPENDI-
TURES WILL BE LIMITED TO NAIRA 8.6 BILLION COMPARED TO
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NAIRA 6.9 BILLION IN FY 1976/77, A 24 PERCENT INCREASE.
SOMEWHAT INCONSISTENTLY OBASANJO ACKNOWLEDGED THE
INFLUENCE OF GOVERNMENT SPENDING ON INFLATION AND
CHARACTERIZED THE BUDGET AS AUSTERE AND REplete WITH
"DRASTIC AND OFTEN PAINFUL CUTS." ESTIMATED TOTAL GROSS
REVENUE FOR THE NEW FISCAL YEAR IS NAIRA 7650 MILLION.
WITH NAIRA 1,795 MILLION EARMARKED FOR STATE BUDGET
ALLOCATIONS, THE FEDERAL GOVERNMENT WILL HAVE ONLY NAIRA
5,855 MILLION FOR ITS OWN RECURRENT AND CAPITAL BUDGET.
OF THIS NAIRA 3,097 MILLION IS SLATED FOR ESTIMATED
RECURRENT EXPENDITURES LEAVING ONLY NAIRA 2,756 MILLION
FOR THE DEVELOPMENT FUND ACCOUNT. SINCE THE ESTIMATED
CAPITAL BUDGET FOR FY 1977/78 IS NAIRA 5.5 BILLION,
NIGERIA "WILL HAVE TO DEPEND LARGELY ON INTERNAL AND
EXTERNAL LOANS" TO FINANCE ITS DEVELOPMENT GOALS. THIS
WAS THE FIRST PUBLIC ANNOUNCEMENT OF NIGERIA'S PLANS TO
ENTER THE OVERSEAS CAPITAL MARKET FOR DEVELOPMENT
FINANCING. ALSO, IN AN EFFORT TO ENSURE SUFFICIENT
RESOURCES FOR NEW LOCAL GOVERNMENT SYSTEM, FIVE PERCENT

OF ALL FEDERALLY RETAINED REVENUES AND 10 PERCENT OF ALL
STATE GOVERNMENT REVENUES WILL BE ALLOTTED TO LOCAL
GOVERNMENTS IN FY 1977/78.

6. NATIONAL DEVELOPMENT PLAN. OBASANJO ADMITTED THAT MAN-

POWER, LEGAL, AND SUPPLY BOTTLENECKS HAVE SLOWED DOWN
THE PLAN'S IMPLEMENTATION. CONSEQUENTLY, MOST DEVELOPMENT
ACTIVITY STILL CENTERED IN 1976 ON EVALUATING DESIGNS,
SELECTING SITES, AND CHOOSING TECHNICAL PARTNERS. NONE-
THELESS, OBASANJO CITED CONTRACT AWARDS FOR CONSTRUCTION
OF TWO INTEGRATED DIRECT REDUCTION STEEL PLANTS AND KADUNA

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FM AMEMBASSY LAGOS
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INFO USDOC WASHDC

UNCLAS FINAL SECTION OF 02 LAGOS 03679

USDOC FOR OIM/SAD

OIL REFINERY AS EXAMPLES OF PROGRESS IN ACHIEVING DEVE-
LOPMENT GOALS AND EXPECTED A "QUICK TAKEOFF" OF THE
REMAINING PROJECTS.

7. FOREIGN INVESTMENT IN NIGERIA. OBASANJO SAID

LITTLE ON NEW GOVERNMENT POLICY DIRECTLY AFFECTING
FOREIGN INVESTMENT HERE. HOWEVER, BANKS WILL BE ALLOWED
TO EXCEED THE CURRENT 40 PERCENT INCREASE CEILING ON
LOANS MADE TO FINANCE INDIGENIZATION DECREE EQUITY
TRANSFERS. ALSO THE EXISTING 30 PERCENT DIVIDENT RATE
LIMIT WILL REMAIN IN EFFECT THROUGH FY 1977/78.

8. BANKING. IN ADDITION TO THE AFOREMENTIONED EXCEP-

TION TO THE 40 PERCENT LOAN INCREASE CEILING, COMMERCIAL

AND MERCHANT BANKS WILL BE REQUIRED TO PROVIDE AT LEAST 5 PERCENT OF TOTAL LOANS TO RESIDENTIAL CONSTRUCTION PROJECTS AND 6 PERCENT TO AGRICULTURE. SHORTFALLS IN MEETING THIS QUOTA WILL BE DEPOSITED WITH THE CENTRAL BANK. STATE GOVERNMENTS WILL BE ABLE TO ENTER THE PRIVATE CAPITAL MARKET INDEPENDENTLY AND FLOAT OWN BOND ISSUES.

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9. TRADE RESTRICTIONS. ARGUING FOR ADDITIONAL MEASURES

TO CURB INFLATION AND PROTECT/PROMOTE LOCAL INDUSTRIES, OBASANJO ANNOUNCED UNSPECIFIED INCREASED IMPORT DUTIES ON "OUTER GARMENTS, SHIRTS, BLOUSES, SUITS AND TEXTILE FABRICS." DUTIES WILL BE CUT ON CERTAIN RAW MATERIALS INCLUDING CARBON BLACK, REFRACTORY GOODS, SYNTHETIC RUBBER LATEX, BARLEY, HOPS, ARTIFICIAL RAISINS AND RAW MATERIAL FOR ANIMAL FEEDS. FOLLOWING ITEMS COMPLETELY BANNED: BEER BOTTLES, GALVANIZED BUCKETS, MINERAL WATER, CARBON PAPER, LACE, AND ALL CARS WITH AN ENGINE CAPACITY OVER 2500 CC CAN NOW BE IMPORTED ONLY UNDER LICENSE WITH THOSE BETWEEN 2000 CC AND 2500 CC CARRYING AN INCREASED IMPORT DUTY OF 150 PERCENT. CANNED BEER, SOFT DRINKS, FURNITURE, CARPETS, TABLE SALT, MATCHES AND TYPEWRITER RIBBONS ALSO HAVE BEEN PLACED UNDER LICENSE. BRANDY, WHISKY, SCHNAPPS, GIN AND ALL WINES WILL HAVE THEIR IMPORT DUTIES INCREASED BY 50 PERCENT.

10. INCOME POLICY. IN A MOVE AFFECTING ABOUT 75 PER-

CENT OF THE CONTRACTUAL WORK FORCE, FMG WILL ALLOW UP TO A 7 PERCENT WAGE/SALARY INCREASE TO WORKERS CURRENTLY EARNING BELOW NAIRA 3,000 ANNUALLY. NO INCREASES CAN TAKE EFFECT BEFORE JUNE 1, 1977 AND ALL MUST BE APPROVED BY COMMISSIONER FOR LABOR.

11. FOREIGN AND PETROLEUM POLICY. HEAD OF STATE MADE NO

FOREIGN POLICY NOR NEW PETROLEUM INVESTMENT INCENTIVE REMARKS IN HIS SPEECH. HOWEVER, DID SAY THAT "MAJOR INCENTIVES TO ENCOURAGE THE EXPLORATION AND DEVELOPMENT OF NEW OILFIELDS ARE BEING WORKED OUT AND WILL BE ANNOUNCED SHORTLY."

12. AGRICULTURE-INDUSTRY. AFTER ANNOUNCING THAT RATE OF

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INCREASE IN AGRICULTURAL PRODUCTION JUMPED FROM 1 PERCENT
(FY 1975/76) TO 3 PERCENT (FY 1976/77), OBASANJO STATED
THAT THE FMG WILL TRY TO FURTHER ACCELERATE AGRICULTURAL
GROWTH. FASTER INDUSTRIAL GROWTH IS ANOTHER GOAL.

13. EMBASSY WILL SEND OBASANJO'S SPEECH UNDER AIRGRAM
COVER. OBVIOUSLY SPEECH BEGS QUESTIONS IN NEARLY EVERY
AREA. HOPEFULLY, MINISTRY OF FINANCE COMMISSIONER
OLULEYE WILL FILL IN MANY OF GAPS. OUR COMMENTS FOLLOW IN
SEPTTEL.
CROSBY

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